INTL FCSTONE INC.
Form 10-K
December 14, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended September 30, 2011
Commission File Number 000-23554

INTL FCStone Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	59-2921318 (I.R.S. Employer Identification No.)

708 Third Avenue, Suite 1500
New York, NY 10017
(Address of principal executive offices) (Zip Code)
(212) 485-3500
(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	NASDAQ Global Market

Securities registered under Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company.

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of March 31, 2011, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $295.7 million.

As of December 9, 2011, there were 18,742,025 shares of the registrant's common stock outstanding.

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Document Incorporated by Reference

Certain portions of the definitive Proxy Statement for the Registrant's Annual Meeting of Stockholders to be held on February 23, 2012 are incorporated by reference into Part III of this Annual Report on Form 10-K.

INTL FCStone Inc.
Annual Report on Form 10-K for the Fiscal Year Ended September 30, 2011
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Cautionary Statement about Forward-Looking Statements

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Risk Factors" (refer to Part I, Item 1A). The Company undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

Overview of Business and Strategy

INTL FCStone Inc., formerly known as International Assets Holding Corporation, a Delaware corporation, together with its consolidated subsidiaries (collectively the "Company") forms a financial services group employing 904 people in offices in twelve countries. We provide comprehensive risk management advisory services to mid-sized commercial customers. We also utilize our expertise and capital to provide foreign exchange and treasury services, securities execution, physical commodities trading services and execution in both listed futures and option contracts as well as structured over-the-counter ("OTC") products in a wide range of commodities.

We are a customer-centric organization focused on acquiring and building long-term relationships with our customers by providing consistent, quality execution and value-added financial solutions, with the goal of earning returns that allow us to achieve our financial objectives.

We provide these services to a diverse group of more than 20,000 customers located in more than 100 countries, including producers, processors and end-users of nearly all widely-traded physical commodities whose margins are sensitive to commodity price movements; to commercial counterparties who are end-users of our products and services; to governmental and non-governmental organizations; and to commercial banks, brokers, institutional investors and major investment banks.

The Company engages in direct sales efforts to seek new customers, with a strategy of extending our services to potential customers who are similar in size and operations to our existing customer base, as well as other kinds of customers that have risk management needs that could be effectively met by our services. We plan to expand our services into new business product lines and new geographic regions, particularly in Asia, Europe, Australia, Latin America and Canada. In executing this plan, we intend to both target new geographic locations and expand the services offered in current locations, where there is an unmet demand for our services particularly in areas where commodity price controls have been recently lifted. In addition, in select instances we pursue small to medium sized acquisitions in which we target customer-centric organizations in order to expand our product offerings and/or geographic presence.

In the last eighteen months, we have opened our initial office in Paraguay, as well as additional locations in both Brazil and China to address the rapid growth in the demand for our services in those countries. In addition, we have expanded our product offering, specifically in our Commodity & Risk Management segment, in both our London and Singapore offices with the relocation of experienced risk management consultants into these offices to address a growing demand for our services in Europe and Asia. Through the acquisitions of Risk Management Incorporated, RMI Consulting Inc., Hencorp Becstone Futures, L.C. and certain assets of Hudson Capital Energy, LLC we have expanded our commodity product offerings, while acquisitions of HGC Trading, LLC, HGC Asset Management, LLC, HGC Advisory Services, LLC, Hanley Alternative Trade Group, LLC, HGC Office Services, LLC, the Provident Group, and Ambrian Commodities Limited have expanded the scope of services which we can provide to our commercial customer base.

Our strategy is to utilize a centralized and disciplined process for capital allocation, risk management and cost control, while delegating the execution of strategic objectives and day-to-day management to experienced individuals. This

requires high quality managers, a clear communication of performance objectives and strong financial and compliance controls. The Company believes this strategy will enable the Company to build a scalable and significantly larger organization that embraces an entrepreneurial approach to business, supported and underpinned by strong central controls.

Each of the Company’s businesses is volatile and their financial performance can change due to a variety of factors which are both outside of management’s control and not readily predictable. To address this volatility, the Company has sought to diversify into a number of uncorrelated businesses.

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The Company's internet address is www.intlfcstone.com. The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, statements of changes in beneficial ownership and press releases are available in the Investor Relations section of this website. The Company's website also includes information regarding the Company's corporate governance, including the Company's Code of Ethics, which governs the Company's directors, officers and employees.

Capabilities

Clearing and Execution

The Company provides execution services on a wide variety of technology platforms in a number of markets. We provide clearing and execution of listed futures and options on futures contracts on all major commodity exchanges throughout the world and are a member of all major U.S. commodity exchanges. The Company provides global payments and treasury services in more than 130 countries to a broad array of commercial customers, including financial institutions, multi-national corporations, and governmental and charitable organizations.

Advisory Services

We provide value-added advisory services in a variety of financial markets, working with commercial clients to systematically identify and quantify exposures to commodity price risks and then developing strategic plans to effectively manage these risks with a view to protecting margins and mitigating exposures through our proprietary Integrated Risk Management Program ("IRMP®").

We provide commercial customers with a full range of investment banking services from optimizing the customer's capital structure through the issuance of loans, debt or equity securities and advisory services including mergers, acquisitions and restructurings.

Through our asset management activities, we leverage our specialist expertise in niche markets to provide institutional investors with tailored investment products.

Physical Trading

The Company trades in a variety of physical commodities, primarily precious and base metals as well as select soft commodities including various agricultural oils, animal fats and feed ingredients. We offer customers efficient off-take or supply services, as well as logistics management. Through these trading activities the Company has the ability to offer complex hedging structures as part of each physical contract to provide customers with enhanced price risk mitigation.

OTC / Market Making

The Company offers customized and complex solutions in the OTC markets that are designed to help customers mitigate their specific market risks. These solutions are offered on a global basis across many markets, including virtually all traded commodities, foreign currencies and interest rates. This process is integrated from product design through execution of the underlying components of the structured risk product.

The Company also provides market making in a variety of financial products including commodity options, unlisted American Depository Receipts ("ADRs"), foreign common shares and foreign currencies.

Trading Revenues

In our business, we may act as principal in the purchase and sale of individual securities, currencies, commodities or derivative instruments with our customers. These transactions may be offset simultaneously with another customer or counterparty, offset with similarly but not identical positions on an exchange, made from inventory, or may be aggregated with other purchases to provide liquidity intraday, for a number of days, or in some cases, particularly the base metals business, even longer periods (during which fair value may fluctuate). In addition, in our foreign exchange segment, we operate a proprietary foreign exchange desk which arbitrages the futures and cash markets.

Operating Segments

The Company's activities are divided into five functional areas consisting of Commodity and Risk Management Services, Foreign Exchange, Securities, Clearing and Execution Services, and Other.

Commodity and Risk Management Services ("C&RM")

We serve our commercial customers by providing high value-added-service that differentiates the Company from our competitors and maximizes the opportunity to retain customers. The IRMP provides customers with commodity risk management consulting services with the goal of developing a customized long term hedging programs that assist

customers to mitigate their exposure to commodity price risk and to maximize the amount and certainty of their operating profits. Customers are assisted in the execution of their hedging strategies through the Company’s exchange-traded futures and options on futures

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clearing and execution operations and through access to more customized alternatives provided by our OTC trading desk. Generally, customer trading activities are self-directed, and risk management consultants do not have discretionary authority to transact trades on behalf of customers. When transacting OTC contracts with a customer, the Company may offset the customer's transaction simultaneously with one of its trading counterparties. Alternatively, the OTC trade desk will accept a customer transaction and offset that transaction with a similar but not identical position on the exchange.

We also provide a full range of trading and hedging capabilities to select producers, consumers, recyclers and investors in precious metals and certain base metals and select other commodities. Acting as a principal, we commit our own capital to buy and sell these commodities on a spot and forward basis.

The risk management consultants organize their marketing efforts within this segment into customer industry product lines, and currently serve customers in the following areas:

- Commercial Grain — Customers in this product line include grain elevator operators, traders, processors, manufacturers and end-users.
- Energy — The energy customer product line targets companies where energy represents a significant input cost in the production of their product or service. Customers in this product line include producers, refiners, wholesalers, transportation companies, convenience store chains, automobile and truck fleet operators, industrial companies, railroads and municipalities.
- Renewable Fuels — The renewable fuels customer product line targets producers of ethanol and biodiesel products.
- Latin America/Brazil — The customers within this product line are involved in all sectors of agribusiness, including livestock production and feeding, flour milling and baking, oilseed crushing and refining, coffee, grain merchandising, meat processing and sugar/ethanol production.
- China — The China customer product line represents both Chinese future commission merchants ("FCMs") as well as commercial companies seeking to hedge their commodity risk exposures. The Chinese FCMs are similar to introducing brokers, facilitating the transactions of their clients in the U.S. commodities markets. The commercial accounts generally represent significant processors of grain or other commodities.
- Dairy/Food Service — The dairy and food service product line targets the dairy industry and users of agricultural commodities in the food industry.
- Cotton/Textiles — The cotton product line targets both the domestic and international markets with a focus on providing trading, consulting and information services to the global fiber, textile and apparel industry.
- Precious Metals — This product line targets mining producers and scrap merchants, as well as wholesale jewelry manufactures and other commercial customers globally.
- Base Metals — This product line has relationships with a number of small and medium-sized metals producers, refiners, recyclers, traders and manufacturing entities. We are also active in the acquisition of scrap metals which are refined under contract and sold to our customers.
- Natural Gas — This product line focuses on consumers of natural gas and has relationships with some of the largest natural gas consumers in North America, including municipalities and large manufacturing firms, as well as major utilities.
- Introducing Brokers — The customers within this product line include introducing brokers that maintain relationships with customers and intermediate transactions between the customer and FCStone, LLC, our wholly owned FCM. The customers within this product line are primarily agricultural producers.

The Company records all of its physical commodities revenues on a gross basis. Operating revenues and losses from the Company's commodities derivatives activities are recorded on a net basis in 'Trading gains', within the consolidated income statements. Inventory for the commodities business is valued at the lower of cost or fair value, under the provisions of the Inventory Topic of the Accounting Standards Codification ("ASC"). The Company generally mitigates the price risk associated with commodities held in inventory through the use of derivatives. The Company does not elect hedge accounting under accounting principles generally accepted in the U.S. ("U.S. GAAP") in accounting for this price risk mitigation. In such situations, unrealized gains in inventory are not recognized under U.S. GAAP, but unrealized gains and losses in related derivative positions are recognized under U.S. GAAP. As a result, the Company's reported earnings from commodities trading may be subject to significant volatility.

Foreign Exchange

The Company provides treasury, global payment and foreign exchange services to financial institutions, multi-national corporations, government organizations and charitable organizations. We also assist commercial customers with the execution of foreign exchange hedging strategies. The Company transacts in over 130 currencies and specializes in smaller, more difficult emerging markets where there is limited liquidity. In addition, the Company executes trades based on the foreign currency

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flows inherent in the Company’s existing business activities. The Company primarily acts as a principal in buying and selling foreign currencies on a spot basis. The Company derives revenue from the difference between the purchase and sale prices.

The Company also provides spot foreign currency trading for eligible contract participants and high net worth retail customers and operates a proprietary foreign exchange desk which arbitrages the futures and cash markets.

Securities

Through INTL Trading, Inc. (“INTL Trading”), a registered broker-dealer, the Company acts as a wholesale market maker in select foreign securities including unlisted ADRs and foreign ordinary shares and provides execution in select debt instruments and exchange traded funds (“ETFs”). INTL Trading provides execution and liquidity to national and regional broker-dealers and institutional investors.

The Company makes markets in approximately 800 ADRs and foreign ordinary shares traded in the OTC market. In addition, the Company will, on request, make prices in more than 8,000 other ADRs and foreign common shares. As a market maker, the Company provides trade execution services by offering to buy shares from, or sell shares to, broker-dealers and institutions. The Company displays the prices at which it is willing to buy and sell these securities and adjusts its prices in response to market conditions. When acting as principal, the Company commits its own capital and derives revenue from the difference between the prices at which the Company buys and sells shares. The Company also earns commissions by executing trades on an agency basis.

While the Company’s customers are other broker-dealers and institutions, the business tends to be driven by the needs of the private clients of those broker-dealers and institutions. The size of private client trades may be uneconomical for the in-house international equities trading desks of our customers to execute. The Company is able to provide execution of smaller trades at profitable margins.

We provide commercial customers with a full range of investment banking services from optimizing the customer’s capital structure through the issuance of loans, debt or equity securities and advisory services including mergers, acquisitions and restructurings. The Company seeks to market these services to our existing commercial customer base, particularly in North and South America, and to develop new customer relationships with whom we can cross-sell our full suite of financial services. From time-to-time, we may invest our own capital in debt instruments before selling them into the market.

Clearing and Execution Services (“CES”)

We provide competitive and efficient clearing and execution of exchange-traded futures and options on futures for the institutional and professional traders through our subsidiary, FCStone, LLC. Through its platform, customer orders are accepted and directed to the appropriate exchange for execution. The Company then facilitates the clearing of customers’ transactions. Clearing involves the matching of customers’ trades with the exchange, the collection and management of margin deposits to support the transactions, and the accounting and reporting of the transactions to customers. The Company seeks to leverage its capabilities and capacity by offering facilities management or outsourcing solutions to other FCMs.

FCStone, LLC is a registered FCM and a clearing member of all major U.S. commodity futures exchanges including the Chicago Mercantile Exchange and its divisions: the Chicago Board of Trade, the New York Mercantile Exchange and the COMEX Division; InterContinental Exchange, Inc. ("ICE") Futures US, formerly known as the New York Board of Trade, the Kansas City Board of Trade and the Minneapolis Grain Exchange (“MGEX”). As of September 30, 2011, FCStone, LLC was the second largest independent FCM in the United States, as measured by required customer segregated assets, not affiliated with a major financial institution or commodity intermediary, end-user or producer. As of September 30, 2011, FCStone, LLC had $1.4 billion in required customer segregated assets.

Other

This segment consists of the Company’s asset management and commodity financing and facilitation business. The asset management revenues include fees, commissions and other revenues received by the Company for management of third-party assets and investment gains or losses on the Company’s investments in funds and proprietary accounts managed either by the Company’s investment managers or by independent investment managers.

The Company operates a commodity financing and facilitation business that makes loans to commercial commodity-related companies against physical inventories, including grain, lumber, meats, energy products and

renewable fuels. Sale and repurchase agreements are used to purchase commodities evidenced by warehouse receipts, subject to a simultaneous agreement to sell such commodities back to the original seller at a later date. These transactions are accounted for as product financing arrangements, and accordingly no commodity inventory, purchases or sales are recorded. Additionally, the Company, as a principal, engages in physical purchase and sale transactions related to inputs to the renewable fuels and feed ingredient industries.

Acquisition of FCStone Group, Inc.

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On September 30, 2009, the Company completed its acquisition of FCStone Group, Inc. ("FCStone") pursuant to the merger of FCStone and a wholly owned subsidiary of the Company (the "FCStone transaction"). As a result of this transaction, the Company issued approximately 8.2 million shares of its common stock to the former stockholders of FCStone, and FCStone became a wholly owned subsidiary of INTL FCStone Inc.

At the time of the acquisition, FCStone and its subsidiaries provided risk management advisory and transaction execution services to commercial commodity intermediaries, users and producers. FCStone primarily assisted middle-market customers in optimizing their profit margins and mitigating commodity price risk. In addition to its risk management advisory services, FCStone operated an independent clearing and execution platform for exchange-traded commodity futures and options on futures contracts. All of the capabilities of FCStone have been retained and integrated into our operations.

Effect of FCStone transaction on disclosures in this Form 10-K

The FCStone transaction was consummated on September 30, 2009, the last day of the 2009 fiscal year for the Company. As a result, the consolidated income statements of the Company for the fiscal years ended September 30, 2011 and 2010 include the results of FCStone, while the consolidated income statement of the Company for the fiscal year ended September 30, 2009, included in this Form 10-K, does not include the results of FCStone. The consolidated balance sheets for the Company as of September 30, 2011 and 2010 included in this Form 10-K reflect the acquisition of FCStone utilizing the purchase method of accounting.

Acquisitions made in the 2011 Fiscal Year

During fiscal year 2011, the Company acquired two businesses, Hencorp Becstone Futures, L.C. and Ambrian Commodities Limited, and certain assets from Hudson Capital Energy, LLC, which were not considered significant on an individual or aggregate basis. The Company's consolidated financial statements include the operating results of the two businesses and certain purchased assets from the related dates of acquisition.

Hencorp Futures

In October, 2010, we acquired Hencorp Becstone Futures, L.C., the futures operation of Miami-based Hencorp Group, which was renamed INTL Hencorp Futures, LLC ("Hencorp Futures"). Hencorp Futures specializes in the development and execution of risk-management programs designed to hedge price volatility in a number of widely traded commodities, including coffee, sugar, cocoa, grains and energy products. The transaction will enable us to round out our portfolio of commodity risk management services to include a more robust capability in soft commodities, especially coffee, where Hencorp Futures has established a substantial presence and reputation globally, and especially in Central and South America. The purchase price consisted of an initial payment of $2.3 million, payments totaling $1.4 million, representing the adjusted tangible equity of Hencorp Futures as of September 30, 2010, four annual contingent payments based on adjusted pre-tax earnings, as defined in the purchase agreement, and a final contingent payment based on the average of the second, third and fourth years payments. The present value of the estimated total purchase price, including contingent consideration, is $6.4 million as of September 30, 2011.

Certain Assets Purchased from Hudson Capital Energy, LLC

In April, 2011, we entered into an agreement with Hudson Capital Energy LLC ("HCEnergy"), a New York-based energy risk-management firm, to acquire certain assets from HCEnergy. The transaction enables the Company's energy risk management services to include a more robust capability in crude oil and refined products. The purchase price consisted of the aggregate net asset value of certain commodity futures brokerage accounts and certain proprietary software, totaling $1.0 million.

Ambrian Commodities Limited

In April, 2011, we agreed to acquire the issued share capital of Ambrian Commodities Limited ("Ambrian"), the London Metals Exchange brokerage subsidiary of Ambrian Capital Plc. On August 5, 2011, the Financial Services Authority granted its approval of the change of control of Ambrian. The transaction was effective on August 31, 2011, and subsequently Ambrian was renamed INTL FCStone (Europe) Ltd. ("INTL FCStone (Europe)"). Ambrian, a non-clearing LME member, specializes in the development and execution of risk-management programs designed to hedge price fluctuations in base metals for a wide variety of producers, manufacturers and fabricators. Ambrian has a niche focus on smaller industrial clients, including lead recyclers, brass producers, zinc galvanizers, metal refineries and copper foil producers that use LME futures and options for hedging raw material costs or output prices. At

closing, the Company paid $7.1 million, representing the net asset value of Ambrian less certain intercompany balances due to Ambrian from its affiliates.

Acquisitions made in the 2010 Fiscal Year

During fiscal year 2010, the Company acquired three separate business groups, Risk Management Incorporated and RMI Consulting, Inc., Hanley Trading, LLC and related companies and Provident Group, which were not considered significant on an individual or aggregate basis. The Company's consolidated financial statements include the operating results of each

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business from the related dates of acquisition.

RMI Companies

In April, 2010, we acquired Risk Management Incorporated and RMI Consulting, Inc. (the "RMI Companies"). The RMI Companies provide execution and consulting services to some of the largest natural gas consumers in North America, including municipalities and large manufacturing firms, as well as major utilities. In addition to its risk-management and brokerage services, the RMI Companies also offer a wide range of other programs, including a proprietary on-line energy procurement platform. The acquisition added extensive and proven expertise in the natural gas, electricity and related energy markets where the RMI Companies have a leading presence, as well as a broad range of long-term relationships with some major organizations. The purchase price consisted of an initial payment of $6.0 million, and three contingent payments. The present value of the estimated total purchase price, including contingent consideration, is $15.2 million as of September 30, 2011.

Hanley Companies

In July 2010, we acquired HGC Trading, LLC; HGC Asset Management, LLC; HGC Advisory Services, LLC; Hanley Alternative Trade Group, LLC and HGC Office Services, LLC (the "Hanley Companies"). The Hanley Companies are engaged in the business of acting as market makers and dealers in exchange traded options and futures on soft commodities; executing and trading derivatives on soft commodities in the OTC market; and providing related advisory services. The purchase price consisted of an initial payment of $31.8 million, and three contingent payments. The present value of the estimated total purchase price, including contingent consideration, is $51.6 million as of September 30, 2011.

Provident Group

In September 2010, the Company acquired certain assets of Provident Group ("Provident"), a New York based investment banking and advisory firm. Under terms of the acquisition agreement, the Company acquired assets and secured the services of the individual sellers as set forth in the agreement. Provident is engaged in the business of providing investment banking and advisory services. Provident plays a critical role in building out our comprehensive investment banking and advisory platform, delivering financing solutions to middle market commercial customers. The purchase price for the assets and services of the sellers was capped at $5.0 million, which subsequent to closing, the individual sellers placed into an escrow account and was used to purchase 214,325 outstanding shares of the Company on the open market. The shares held in escrow for business combinations will be released to the individual sellers, over a five year period from the date of closing based on net profits, in accordance with the provisions of the acquisition agreement. However, if the terms of the agreement are not met, the remaining shares will be forfeited and the remaining shares and balance in the shares held in escrow for business combinations balance will be recorded as treasury stock.

Subsequent Acquisition

On November 25, 2011, the Company arranged with the trustee of MF Global's UK operations to hire more than 50 professional staff from MF Global's metals trading business based in London. The Company anticipates that a substantial number of the customers of this metals trading business will elect to become customers of the Company. The Company expects to allocate equity capital to integrate these brokers and their customers into the Company's operations, through a combination of increased regulatory capital to support the accounts of these customers and increased compensation and related personnel costs for the brokers. The amount of the required capital will primarily depend upon the number and balances of the new accounts. As part of this transaction, INTL FCStone (Europe) has received approval from the LME to upgrade its LME Category Two membership to a LME Category One ring dealing membership.

Competition

The international commodities and financial markets are highly competitive and rapidly evolving. In addition, these markets are dominated by firms with significant capital and personnel resources that are not matched by the Company's resources. The Company expects these competitive conditions to continue in the future, although the nature of the competition may change as a result of the ongoing global financial crisis. The crisis has produced opportunities for the Company to expand its activities and may produce further opportunities. The Company believes that it can compete successfully with other commodities and financial intermediaries in the markets it seeks to serve, based on

the Company's expertise, products and quality of consulting and execution services.
We compete with a large number of firms in the exchange-traded futures and options execution sector and in the OTC derivatives sector. We compete primarily on the basis of diversity and value of services offered, and to a lesser extent on price. Our competitors in the exchange-traded futures and options sector include international brokerage firms, national brokerage firms, regional brokerage firms (both cooperatives and non-cooperatives) as well as local introducing brokers, with competition driven by price level and quality of service. Many of these competitors also offer OTC trading programs. In addition, there are a number of financial firms and physical commodities firms that participate in the OTC markets, both directly in competition with us and indirectly through firms like us. We compete in the OTC market by making specialized OTC transactions available

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to our customers in contract sizes that are smaller than those usually available from major counterparties.
The Company's activities are impacted and will continue to be impacted by investor interest in the markets served by the Company. The instruments traded in these markets compete with a wide range of alternative investment instruments. The Company seeks to counterbalance changes in demand in specified markets by undertaking activities in multiple uncorrelated markets.
Technology has increased competitive pressures on commodities and financial intermediaries by improving dissemination of information, making markets more transparent and facilitating the development of alternative execution mechanisms. The Company competes, in certain instances, by providing technology-based solutions to facilitate customer transactions and solidify customer relationships.

Administration and Operations

The Company employs operations personnel to supervise and, for certain products, complete the clearing and settlement of transactions.
INTL Trading's securities transactions are cleared through Broadcourt, a division of Merrill Lynch, Pierce, Fenner & Smith, Inc. INTL Trading does not hold customer funds or directly clear or settle securities transactions.
We utilize front-end electronic trading, back office and accounting systems to process transactions on a daily basis. In some cases these systems are integrated. They provide record keeping, trade reporting to exchange clearing, internal risk controls, and reporting to government entities, corporate managers, risk managers and customers. Our futures and options back office system is maintained by a third-party service bureau located in Chicago, Illinois, with a disaster recovery site in New York City, New York.
The Company holds customer funds in relation to certain of its activities. In regulated entities, these customer funds are segregated, but in unregulated entities they are not. For a further discussion of customer segregated funds in our regulated entities, please see the "Customer Segregated Assets" discussion below.
The Company's administrative staff manages the Company's internal financial controls, accounting functions, office services and compliance with regulatory requirements.

Governmental Regulation and Exchange Membership

The Company's activities are subject to significant governmental regulation, both in the United States and overseas. Failure to comply with regulatory requirements could result in administrative or court proceedings, censure, fines, issuance of cease-and-desist orders, suspension or disqualification of the regulated entity, its officers, supervisors or representatives. The regulatory environment in which the Company operates is subject to frequent change and these changes directly impact the Company's business and operating results.
The commodities industry in the U.S. is subject to extensive regulation under federal law. The Company is required to comply with a wide range of requirements imposed by the Commodity Futures Trading Commission (the "CFTC"), the National Futures Association (the "NFA") and the Chicago Mercantile Exchange, which is our designated self-regulatory organization. The Company is also a member of the Chicago Mercantile Exchange's divisions: the Chicago Board of Trade, the New York Mercantile Exchange and COMEX, ICE Futures US, the Minneapolis Grain Exchange and the Kansas City Board of Trade. These regulatory bodies are charged with protecting customers by imposing requirements relating to capital adequacy, licensing of personnel, conduct of business, protection of customer assets, record-keeping, trade-reporting and other matters.
The securities industry in the U.S. is subject to extensive regulation under federal and state securities laws. The Company is required to comply with a wide range of requirements imposed by the Securities and Exchange Commission (the "SEC"), state securities commissions and Financial Industry Regulatory Authority ("FINRA"). These regulatory bodies are charged with safeguarding the integrity of the financial markets and with protecting the interests of investors in these markets. They also impose minimum capital requirements on regulated entities. The activities of our broker-dealer subsidiaries in the U.S., INTL Trading and FCC Investments, Inc., are primarily regulated by FINRA and the SEC.
On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act creates a comprehensive new regulatory regime governing the OTC and listed derivatives markets and their participants by requiring, among other things: centralized clearing of standardized derivatives (with certain stated exceptions); the trading of clearable derivatives on swap execution facilities or

exchanges; and registration and comprehensive regulation of new categories of market participants as “swap dealers” and swap “introducing brokers.” The Dodd-Frank Act grants regulatory authorities such as the CFTC and the SEC broad rule-making authority to implement various provisions of the Dodd-Frank Act, including comprehensive regulation of the OTC derivatives market. It is unclear how these regulators will exercise these revised and expanded powers and whether they will undertake rule-making, supervisory or enforcement actions that would adversely affect us. Based upon regulations proposed to date, we anticipate that one or more of

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our subsidiaries may be subject to registration under the Dodd-Frank Act. Registration will impose substantial new requirements upon these entities, including, among other things, record keeping and data reporting obligations, capital and margin requirements and business conduct standards. Increased regulatory oversight could also impose administrative burdens on us related to, among other things, responding to regulatory examinations or investigations. These initiatives and legislation may not only affect us but also certain of our customers and counterparties. The increased costs associated with compliance, and the changes that will likely be required in our OTC and clearing businesses, may adversely impact our results of operations, cash flows, and/or financial condition. Although the original date set for completion of final rules was mid-July 2011, the CFTC has announced that it will phase in its new rules through June 30, 2012. Because many of the rules that the CFTC and the SEC are required to promulgate are not yet final, we cannot predict with any degree of certainty how our business will be affected. The Company will continue to monitor all applicable developments in the implementation of the Dodd-Frank Act. Failure to comply with current or future legislation or regulations that apply to our operations could subject us to fines, penalties, or material restrictions on our business in the future.

The USA PATRIOT Act contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations applicable to broker-dealers and other financial services companies. The USA PATRIOT Act seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. Anti-money laundering laws outside of the U.S. contain similar provisions. We believe that we have implemented, and that we maintain, appropriate internal practices, procedures and controls to enable us to comply with the provisions of the USA PATRIOT Act and other anti-money laundering laws.

The U.S. maintains various economic sanctions programs administered by the U.S. Treasury Department’s Office of Foreign Assets Control (“OFAC”). The OFAC administered sanctions take many forms, but generally prohibit or restrict trade and investment in and with sanctions targets; and in some cases require blocking of the target’s assets. Violations of any of the OFAC-administered sanctions are punishable by civil fines, as well as criminal fines and imprisonment. We have established policies and procedures designed to comply with applicable OFAC requirements. Although we believe that our policies and procedures are effective, there can be no assurance that our policies and procedures will effectively prevent us from violating the OFAC-administered sanctions in every transaction in which we may engage.

Net Capital Requirements

FCStone, LLC is subject to minimum capital requirements under Section 4(f)(b) of the Commodity Exchange Act and Part 1.17 of the rules and regulations of the CFTC. These rules specify the minimum amount of capital that must be available to support our clients’ open trading positions, including the amount of assets that FCStone, LLC must maintain in relatively liquid form, and are designed to measure general financial integrity and liquidity. Net capital and the related net capital requirement may fluctuate on a daily basis. FCStone, LLC currently maintains regulatory capital in excess of all applicable requirements. Compliance with minimum capital requirements may limit our operations if we cannot maintain the required levels of capital. Moreover, any change in these rules or the imposition of new rules affecting the scope, coverage, calculation or amount of capital we are required to maintain could restrict our ability to operate our business and adversely affect our operations.

INTL Trading is subject to the SEC Uniform Net Capital Rule 15c3-1 under the Securities Exchange Act of 1934. These requirements are intended to ensure the financial integrity and liquidity of broker-dealers. They establish both minimum levels of capital and liquid assets. The net capital requirements prohibit the payments of dividends, redemption of stock, the prepayment of subordinated indebtedness and the making of any unsecured advances or loans to any stockholder, employee or affiliate, if such payment would reduce the broker-dealer’s net capital below required levels. The net capital requirements restrict the ability of INTL Trading to make distributions to the Company. They also restrict the ability of INTL Trading to expand its business beyond a certain point without the introduction of additional capital. As of September 30, 2011, INTL Trading’s net capital and excess net capital were in excess of all applicable requirements.

FCStone Australia Pty, Ltd ("FCStone Australia") is regulated by the Australian Securities and Investment Commission and is subject to a surplus liquid funds requirement. FCStone Australia is also regulated by the New Zealand Clearing Limited, and is subject to a capital adequacy requirement.

FCC Investments, Inc., a broker-dealer subsidiary, is subject to the net capital requirements of the SEC relating to liquidity and net capital levels.

Risk Management Incorporated and Hencorp Futures are regulated by the CFTC and the NFA, and are both subject to a minimum capital requirement.

INTL FCStone (Europe) is regulated by the Financial Services Authority, the regulator of the financial services industry in the United Kingdom, and subject to a consolidated net capital requirement.

Certain other non-U.S. subsidiaries of the Company are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate.

All of the subsidiaries of the Company are in compliance with all of their capital regulatory requirements as of September 30,

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2011. Additional information on these net capital and minimum net capital requirements can be found within Note 15 of the Consolidated Financial Statements.

Segregated Customer Assets

FCStone, LLC maintains customer segregated deposits from its customers to margin their positions held with the Company. As such, it is subject to CFTC regulation 1.20, which specifies that such funds must be held in segregation and not commingled with the Company's own assets. FCStone, LLC maintains acknowledgment letters from each depository at which it maintains customer segregated deposits in which the depository acknowledges the nature of funds on deposit in the account. In addition, CFTC regulations require that a daily segregation calculation is performed which compares the assets held in customers segregated depositories ("segregated assets") to the Company's total segregated assets held on deposit from customers ("segregated liabilities"). The amount of customer segregated assets must be in excess of the segregated liabilities owed to customers and any shortfall in such assets must be immediately communicated to the CFTC. As of September 30, 2011, FCStone, LLC maintained $50.9 million in segregated assets in excess of its segregated liabilities.

In addition, FCStone, LLC is subject to CFTC regulation 1.25, which governs the acceptable investment of customer segregated assets. This regulation allows for the investment of customer segregated assets in readily marketable instruments including U.S. Treasury securities, municipal securities, government sponsored enterprise securities, certificates of deposit, commercial paper, corporate notes or bonds, general obligations of a sovereign nation, interest in money market mutual funds, and repurchase transactions with affiliated entities in otherwise allowable securities. FCStone, LLC predominately invests its customer segregated assets in U.S. Treasury bills and money market mutual funds, maintains no investment in the general obligations of a sovereign nation and does not engage in repurchase transactions with affiliated entities.

Foreign Operations

The Company operates in a number of foreign jurisdictions, including Canada, Ireland, the United Kingdom, Argentina, Brazil, Uruguay, Paraguay, Mexico, Nigeria, Dubai, China, Australia and Singapore. INTL has established wholly-owned subsidiaries in Mexico and Nigeria but does not have offices or employees in those countries.

FCStone Commodity Services (Europe) Ltd. is domiciled in Ireland and subject to regulation by the Financial Regulator of Ireland.

INTL FCStone (Europe) is domiciled in the United Kingdom, and subject to regulation by the United Kingdom Financial Services Authority.

INTL Trading, INTL FCStone (Europe) and INTL Commodities, Inc. each have branch offices in the United Kingdom. As a result, their activities are also subject to regulation by the United Kingdom Financial Services Authority.

In Argentina, the activities of INTL Gainvest and Compania Inversora Bursatil S.A. Sociedad de Bolsa (“CIBSA”) are subject to regulation by the Comision de Valores and Merval.

In Brazil, the activities of FCStone do Brasil are subject to regulation by BM&FBovespa.

The activities of INTL Commodities DMCC are subject to regulation by the Dubai Multi Commodities Centre.

FCStone Australia Pty. Ltd. is subject to regulation by the Australian Securities and Investments Commission.

Business Risks

The Company seeks to mitigate the market and credit risks arising from its financial trading activities through an active risk management program. The principal objective of this program is to limit trading risk to an acceptable level while maximizing the return generated on the risk assumed.

The Company has a defined risk policy which is administered by the Company’s risk committee, which reports to the Company’s audit committee. The Company has established specific exposure limits for inventory positions in every business, as well as specific issuer limits and counterparty limits. These limits are designed to ensure that in a situation of unexpectedly large or rapid movements or disruptions in one or more markets, systemic financial distress, the failure of a counterparty or the default of an issuer, the potential estimated loss will remain within acceptable levels. The audit committee reviews the performance of the risk committee on a quarterly basis to monitor compliance with the established risk policy.

Employees

As of September 30, 2011, we employed 904 people globally: 660 in the U.S., 4 in Canada, 56 in Argentina, 68 in Brazil, 10 in Uruguay, 46 in the United Kingdom, 7 in Ireland, 16 in Dubai, 20 in Singapore, 4 in China and 13 in Australia. None of our employees operate under a collective bargaining agreement, and we have not suffered any work stoppages or labor disputes. Many of our employees are subject to employment agreements, certain of which contain non-competition provisions.

Item 1A. Risk Factors

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The Company faces a variety of risks that could adversely impact its financial condition and results of operations. The risks faced by the Company include the following:

Our ability to achieve consistent profitability is subject to uncertainty due to the nature of our businesses and the markets in which we operate. During the fiscal year ended September 30, 2011 we recorded net income of $37.3 million, compared to net income of $5.4 million in 2010, which included a $7.0 million extraordinary loss related to purchase price adjustments and the correction of immaterial errors on the FCStone transaction, and net income of $27.6 million in 2009, which included an $18.5 million extraordinary gain related to the FCStone transaction in 2009. Our revenues and operating results may fluctuate significantly in the future because of the following factors:

- Market conditions, such as price levels and volatility in the securities, commodities and foreign exchange markets in which we operate;
- Changes in the volume of our market making and trading activities;
- Changes in the value of our financial instruments, currency and commodities positions and our ability to manage related risks;
- The level and volatility of interest rates;
- The availability and cost of funding and capital;
- Our ability to manage personnel, overhead and other expenses;
- Changes in execution and clearing fees;
- The addition or loss of sales or trading professionals;
- Changes in legal and regulatory requirements; and
- General economic and political conditions.

Although we are continuing our efforts to diversify the sources of our revenues, it is likely that our revenues and operating results will continue to fluctuate substantially in the future and such fluctuations could result in losses. These losses could have a material adverse effect on our business, financial condition and operating results.

The manner in which we account for our commodities inventory and forward commitments may increase the volatility of our reported earnings. Our net income is subject to volatility due to the manner in which we report our commodities inventory. This inventory is stated at the lower of cost or fair value. The Company generally mitigates the price risk associated with its commodities inventory through the use of derivatives. This price risk mitigation does not generally qualify for hedge accounting under U.S. GAAP. In such situations, any unrealized gains in inventory are not recognized under U.S. GAAP, but unrealized gains and losses in related derivative positions are recognized under U.S. GAAP. Additionally, in certain circumstances, U.S. GAAP does not require us to reflect changes in estimated values of forward commitments to purchase and sell commodities. The forward commitments to purchase and sell commodities, which the Company does not reflect within the consolidated balance sheets, qualify for the normal purchases and sales exception in the Derivatives and Hedging Topic of the ASC. As a result, the Company's reported earnings from this business segment are subject to greater volatility than the earnings from our other business segments.

Our indebtedness could adversely affect our financial conditions. As of September 30, 2011, our total consolidated indebtedness to lenders was $77.4 million, and we expect to increase our indebtedness in the future as we continue to expand our business. Our indebtedness could have important consequences, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- requiring that a portion of our cash flow from operations be used for the payment of interest on our debt, thereby reducing our ability to use our cash flow to fund working capital, capital expenditures, acquisitions and general corporate requirements;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions and general corporate requirements;
- limiting our flexibility in planning for, or reacting to, changes in our business and the securities industry; and
- restricting our ability to pay dividends or make other payments.

We may be able to incur additional indebtedness in the future, including secured indebtedness. If new indebtedness is added to our current indebtedness levels, the related risks that we now face could intensify.

Committed credit facilities currently available to the Company might not be renewed. We currently have four committed credit facilities under which we may borrow up to $375.0 million, consisting of:

- a $140.0 million facility available to our wholly owned subsidiary, INTL Commodities, for its commodities trading activities, committed until September 20, 2012.
- a $75.0 million facility available to our wholly owned subsidiary, FCStone, LLC, for short-term funding of margin to commodity exchanges, committed until June 18, 2012.
- an $85.0 million facility available to the Company and INTL Global Currencies, for general working capital requirements, committed until October 1, 2013.

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- a $75.0 million committed facility available to our wholly owned subsidiary, FCStone Financial, for financing commodity repurchase agreements, committed until October 9, 2012.

It is possible that these facilities might not be renewed at the end of their commitment periods and that we will be unable to replace them with other facilities. If our credit facilities are unavailable or insufficient to support future levels of business activities, we may need to raise additional funds externally, either in the form of debt or equity. If we cannot raise additional funds on acceptable terms, we may not be able to develop or enhance our business, take advantage of future opportunities or respond to competitive pressure or unanticipated requirements, leading to reduced profitability.

The failure of the Company to successfully integrate the operations of businesses acquired by the Company in the last twenty-four months could have a material adverse effect on the Company's business, financial condition and operating results. Since September 30, 2009, the Company has acquired several businesses, including FCStone, the RMI Companies, the Hanley Companies, Provident, Hencorp Futures and Ambrian. We will need to meet significant challenges to realize the expected benefits and synergies of these acquisitions. These challenges include:

- integrating the management teams, strategies, cultures, technologies and operations of the acquired companies;
- retaining and assimilating the key personnel of acquired companies;
- retaining existing clients of the acquired companies;
- creating uniform standards, controls, procedures, policies and information systems; and
- achieving revenue growth because of risks involving (1) the ability to retain clients, (2) the ability to sell the services and products of the acquired companies to the existing clients of our other business segments, and (3) the ability to sell the services and products of our other business segments to the existing clients of the acquired companies.

The accomplishment of these objectives will involve considerable risk, including:

- the potential disruption of each company's ongoing business and distraction of their respective management teams;
- unanticipated expenses related to technology integration; and
- potential unknown liabilities associated with the acquisition.

It is possible that the integration process could result in the loss of the technical skills and management expertise of key employees, the disruption of the ongoing businesses or inconsistencies in standards, controls, procedures and policies due to possible cultural conflicts or differences of opinions on technical decisions and product road maps that adversely affect the Company's ability to maintain relationships with clients, software developers, customers and employees or to achieve the anticipated benefits of the acquisition.

We face risks associated with our market making and trading activities. We conduct our market-making and trading activities predominantly as a principal, which subjects our capital to significant risks. These activities involve the purchase, sale or short sale for customers and for our own account of financial instruments, including equity and debt securities, commodities and foreign exchange. These activities are subject to a number of risks, including risks of price fluctuations, rapid changes in the liquidity of markets and counterparty creditworthiness.

These risks may limit our ability to either resell financial instruments we purchased or to repurchase securities we sold in these transactions. In addition, we may experience difficulty borrowing financial instruments to make delivery to purchasers to whom we sold short, or lenders from whom we have borrowed. From time to time, we have large position concentrations in securities of a single issuer or issuers in specific countries and markets. This concentration could result in higher trading losses than would occur if our positions and activities were less concentrated.

The success of our market-making activities depends on:

- the price volatility of specific financial instruments, currencies and commodities,
- our ability to attract order flow;
- the skill of our personnel;
- the availability of capital; and
- general market conditions.

To attract market-trading, market-making and trading business, we must be competitive in:

- providing enhanced liquidity to our customers;
- the efficiency of our order execution;
- the sophistication of our trading technology; and

- the quality of our customer service.

In our role as a market maker and trader, we attempt to derive a profit from the difference between the prices at which we buy and sell financial instruments, currencies and commodities. However, competitive forces often require us to:

- match the quotes other market makers display; and
- hold varying amounts of financial instruments, currencies and commodities in inventory.

By having to maintain inventory positions, we are subject to a high degree of risk. We cannot ensure that we will be able to

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manage our inventory risk successfully or that we will not experience significant losses, either of which could materially adversely affect our business, financial condition and operating results.

We operate as a principal in the OTC derivatives markets which involves the risks associated with commodity derivative instruments. We offer OTC derivatives to our customers in which we act as a principal counterparty. We endeavor to simultaneously offset the commodity price risk of the instruments by establishing corresponding offsetting positions with commodity counterparties, or alternatively we may offset those transactions with similar but not identical positions on an exchange. To the extent that we are unable to simultaneously offset an open position or the offsetting transaction is not fully effective to eliminate the commodity derivative risk, we have market risk exposure on these unmatched transactions. Our exposure varies based on the size of the overall positions, the terms and liquidity of the instruments brokered, and the amount of time the positions remain open.

To the extent an unhedged position is not disposed of intra-day, adverse movements in the commodities underlying these positions or a downturn or disruption in the markets for these positions could result in a substantial loss. In addition, any principal gains and losses resulting from these positions could on occasion have a disproportionate effect, positive or negative, on our financial condition and results of operations for any particular reporting period.

Transactions involving OTC derivative contracts may be adversely affected by fluctuations in the level, volatility, correlation or relationship between market prices, rates, indices and/or other factors. These types of instruments may also suffer from illiquidity in the market or in a related market.

OTC derivative transactions are subject to unique risks. OTC derivative transactions are subject to the risk that, as a result of mismatches or delays in the timing of cash flows due from or to counterparties in OTC derivative transactions or related hedging, trading, collateral or other transactions, we or our counterparty may not have adequate cash available to fund its current obligations.

We could incur material losses pursuant to OTC derivative transactions because of inadequacies in or failures of our internal systems and controls for monitoring and quantifying the risk and contractual obligations associated with OTC derivative transactions and related transactions or for detecting human error, systems failure or management failure.

OTC derivative transactions may be modified or terminated only by mutual consent of the original parties and subject to agreement on individually negotiated terms. Accordingly it may not be possible to modify, terminate or offset obligations or exposure to the risk associated with a transaction prior to its scheduled termination date.

The global financial crisis that started in 2008 has heightened many of the risks to which the Company is exposed. These risks have been further exacerbated by the current sovereign debt crises in Europe. The financial crisis that started in 2008 has increased many of the risks that accompany the Company’s business, including the risk of counterparty failure, the inability to obtain necessary financing and the absence of liquid markets. During 2011, these risks were increased due to the sovereign debt crisis in Europe. Although the Company does not directly hold any European sovereign debt, many of the Company's customers and counterparties hold positions in these instruments. If the crisis were to continue, the Company would be subject to enhanced risk of counterparty failure, as well as related problems arising from a lack of liquidity in the Company's markets. The continuation of the crisis may affect other aspects of the Company’s businesses for a variety of reasons. A general decrease in worldwide economic activity could reduce demand for Company’s equity market making and foreign exchange business, as well as volumes in our Commodity & Risk Management Services and Clearing and Execution Services segments. Substantial changes in commodities prices may affect the levels of business in the precious and base metals product lines.

On October 31, 2011 MF Global Holdings Ltd. ("MF Global"), the parent company of the jointly registered futures commission merchant and broker-dealer, MF Global Inc., filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. At that time, MF Global Inc. notified the CFTC of potential deficiencies in customer segregated futures accounts held at MF Global Inc. We are unable to predict the effect the bankruptcy of MF Global and the potential deficiency in customer segregated futures accounts will have on both the exchange traded and OTC derivative markets in which we operate. It is possible that these developments will result in increased governmental regulation and a decrease in customer confidence in safeguards in place over segregated exchange traded deposits, which could have a material adverse effect on our operating results. The ultimate effect of the crisis on the Company’s liquidity, financial condition and capital resources is unknown.

We may have difficulty managing our growth. Since October 1, 2006, we have experienced significant growth in our business. Our operating revenues grew from $45.7 million in the 2007 fiscal year to $423.2 million in 2011. The acquisition of additional businesses since September 30, 2009 is expected to increase operating revenues in 2012. This growth has required and will continue to require us to increase our investment in management personnel, financial and management systems and controls, and facilities. In the absence of continued revenue growth, the costs associated with our expected growth would cause our operating margins to decline from current levels. In addition, as is common in the financial industry, we are and will continue to be highly dependent on the effective and reliable operation of our communications and information systems.

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The scope of procedures for assuring compliance with applicable rules and regulations has changed as the size and complexity of our business has increased. In response, we have implemented and continue to revise formal compliance procedures.

It is possible that we will not be able to manage our growth successfully. Our inability to do so could have a material adverse effect on our business, financial condition and operating results.

We are exposed to the credit risk of our customers and counterparties and their failure to meet their financial obligations could adversely affect our business. We have substantial credit risk in both our securities and commodities businesses. As a market-maker of OTC and listed securities, the majority of our securities transactions are conducted as principal with broker-dealer counterparties located in the U.S. We clear our securities transactions through an unaffiliated clearing broker. Substantially all of our equity and debt securities are held by this clearing broker. Our clearing broker has the right to charge us for losses that result from a counterparty's failure to fulfill its contractual obligations.

As a clearing broker in futures and option transactions, we act on behalf of our customers for all trades consummated on exchanges. We must pay initial and variation margin to the exchanges before we receive the required payments from our customers. Accordingly, we are responsible for our customers' obligations with respect to these transactions, including margin payments, which exposes us to significant credit risk. Customer positions which represent a significant percentage of open positions in a given market or concentrations in illiquid markets may expose us to the risk that we are not able to liquidate a customer's position in a manner which does not result in a deficit in that customers account. A substantial part of our working capital is at risk if customers default on their obligations to us and their account balances and security deposits are insufficient to meet all of their obligations.

With OTC derivative transactions we act as a principal, which exposes us to both the credit risk of our customers and the counterparties with which we offset the customer's position. As with exchange traded transactions, our OTC transactions require that we meet initial and variation margin payments on behalf of our customers before we receive the required payment from our customers. In addition, with OTC transactions, there is a risk that a counterparty will fail to meet its obligations when due. We would then be exposed to the risk that a settlement of a transaction which is due a customer will not be collected from the respective counterparty with which the transaction was offset.

Customers and counterparties that owe us money, securities or other assets may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons.

In this regard, during its fiscal year ended August 31, 2009, FCStone Group, Inc. recognized $119.8 million in bad debt expense as a result of defaults by customer counterparties. Although the Company has adopted additional procedures that are designed to reduce the likelihood and magnitude of such credit losses, they are an inherent component of the business conducted by the Company, and the Company will continue to be subject to the risk of such losses.

We are responsible for self-clearing our foreign exchange and precious and base metals commodities trading activities and, in addition, take principal risk to counterparties and customers in these activities. Any metals or other physical commodities positions are held by third party custodians. In this regard, during our fiscal years ended September 30, 2011 and 2010, we recognized $5.6 million and $2.5 million, respectively, in bad debt expense as a result of defaults by customer counterparties to whom we had consigned gold. Although the Company has adopted additional procedures that are designed to reduce the likelihood and magnitude of such credit losses, the possibility of such losses is an inherent component of the business conducted by the Company, and the Company will continue to be subject to the risk of such losses.

Although we have procedures for reviewing credit exposures to specific customers and counterparties to address present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee including rapid changes in securities, commodity and foreign exchange price levels. Some of our risk management methods depend upon the evaluation of information regarding markets, clients or other matters that are publicly available or otherwise accessible by us. That information may not, in all cases, be accurate, complete, up-to-date or properly evaluated. In addition, concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect us. We may be materially and adversely affected in the event of a significant default by our customers and counterparties.

In our securities and commodities trading businesses we rely on the ability of our clearing brokers to adequately discharge their obligations on a timely basis. We also depend on the solvency of our clearing brokers and custodians. Any failure by a clearing broker to adequately discharge its obligations on a timely basis, or insolvency of a clearing broker or custodian, or any event adversely affecting our clearing brokers or custodians, could have a material adverse effect on our business, financial condition and operating results.

Our net operating revenues may decrease due to changes in market volume, prices or liquidity. Declines in the volume of securities, commodities and foreign exchange transactions and in market liquidity generally may result in lower revenues from market-making and trading activities. Changes in price levels of securities and commodities and foreign exchange rates also may result in reduced trading activity and reduce our revenues from market-making transactions. Changed price levels also can result in losses from changes in the fair value of securities and commodities held in inventory. Sudden sharp changes in fair

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values of securities and commodities can result in:

- illiquid markets;
- fair value losses arising from positions held by the Company;
- the failure of buyers and sellers of securities and commodities to fulfill their settlement obligations,
- redemptions from funds managed in our asset management business segment and consequent reductions in management fees;
- reductions in accrued performance fees in our asset management business segment; and
- increases in claims and litigation.

Any change in market volume, price or liquidity or any other of these factors could have a material adverse effect on our business, financial condition and operating results.

Our net operating revenues may decrease due to changes in customer trading volumes which are dependent in large part on commodity prices and commodity price volatility. Customer trading volumes are largely driven by the degree of volatility—the magnitude and frequency of fluctuations—in prices of commodities. Higher volatility increases the need to hedge contractual price risk and creates opportunities for arbitrage trading. Energy and agricultural commodities markets have periodically experienced significant price volatility. In addition to price volatility, increases in commodity prices lead to increased trading volume. As prices of commodities have risen, especially energy prices, new participants have entered the markets to address their growing risk-management needs or to take advantage of greater trading opportunities. Sustained periods of stability in the prices of commodities or generally lower prices could result in lower trading volumes and, potentially, lower revenues. Lower volatility and lower volumes could lead to lower customer balances held on deposit, which in turn may reduce the amount of interest revenue based on these deposits.

Factors that are particularly likely to affect price volatility and price levels of commodities include:

- supply and demand of commodities;
- weather conditions affecting certain commodities;
- national and international economic and political conditions;
- perceived stability of commodities and financial markets;
- the level and volatility of interest rates and inflation; and
- financial strength of market participants.

Any one or more of these factors may reduce price volatility or price levels in the markets for commodities trading, which in turn could reduce trading activity in those markets. Moreover, any reduction in trading activity could reduce liquidity which in turn could further discourage existing and potential market participants and thus accelerate any decline in the level of trading activity in these markets.

Our net operating revenues may be impacted by diminished market activity due to adverse economic, political and market conditions. The amount of our revenues depends in part on the level of activity in the securities, foreign exchange and commodities markets in which we conduct business. The level of activity in these markets is directly affected by numerous national and international factors that are beyond our control, including:

- economic, political and market conditions;
- the availability of short-term and long-term funding and capital;
- the level and volatility of interest rates;
- legislative and regulatory changes; and
- currency values and inflation.

Any one or more of these factors may reduce the level of activity in these markets, which could result in lower revenues from our market-making and trading activities. Any reduction in revenues or any loss resulting from these factors could have a material adverse effect on our business, financial condition and operating results.

Several of our product lines depend significantly on a limited group of customers. Based on management’s assessment of our business, we believe that a small number of our customers account for a significant portion of our revenues in several of the product lines of our businesses. These product lines include our equities market-making, metals trading and foreign exchange trading product lines. We are unable to measure the level of this concentration because our dealing activities do not permit us to quantify revenues generated by each customer. We expect a significant portion of

the future demand for each of our market-making and trading services to remain concentrated within a limited number of customers. None of these customers is obligated contractually to use our market-making or trading services. Accordingly, these customers may direct their trading activities to other market-makers or traders at any time. The loss of or a significant reduction in demand for our services from any of these customers could have a material adverse effect on our business, financial condition and operating results.

We are dependent on our management team. Our future success depends, in large part, upon our management team who possess extensive knowledge and management skills with respect to securities, commodities and foreign exchange businesses operated by the Company. The unexpected loss of services of any of our executive officers could adversely affect our ability to

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manage our business effectively or execute our business strategy. Although these officers have employment contracts with us, they are generally not required to remain with us for a specified period of time.
We depend on our ability to attract and retain key personnel. Competition for key personnel and other highly qualified management, sales, trading, compliance and technical personnel is significant. It is possible that we will be unable to retain our key personnel and to attract, assimilate or retain other highly qualified personnel in the future. The loss of the services of any of our key personnel or the inability to identify, hire, train and retain other qualified personnel in the future could have a material adverse effect on our business, financial condition and operating results.
From time to time, other companies in the financial sector have experienced losses of sales and trading professionals. The level of competition to attract these professionals is intense. It is possible that we will lose professionals due to increased competition or other factors in the future. The loss of a sales and trading professional, particularly a senior professional with broad industry expertise, could have a material adverse effect on our business, financial condition and operating results.
Computer systems failures, capacity constraints and breaches of security could increase our operating costs and cause us to lose clients. We are heavily dependent on the capacity and reliability of the computer and communications systems supporting our operations, whether owned and operated internally or by third parties. We receive and process a large portion of our trade orders through electronic means, such as through public and private communications networks. These computer and communications systems and networks are subject to performance degradation or failure from any number of reasons, including loss of power, acts of war or terrorism, human error, natural disasters, fire, sabotage, hardware or software malfunctions or defects, computer viruses, intentional acts of vandalism, customer error or misuse, lack of proper maintenance or monitoring and similar events. Our systems, or those of our third party providers, may fail or operate slowly, causing one or more of the following:

- unanticipated disruptions in service to our clients;
- slower response times;
- delays in our clients’ trade execution;
- failed settlement of trades;
- decreased client satisfaction with our services;
- incomplete, untimely or inaccurate accounting, recording, reporting or processing of trades;
- financial losses;
- litigation or other client claims; and
- regulatory sanctions.

The occurrence of degradation or failure of the communications and computer systems on which we rely may lead to financial losses, litigation or arbitration claims filed by or on behalf of our customers and regulatory investigations and sanctions, including by the CFTC, which require that our trade execution and communications systems be able to handle anticipated present and future peak trading volumes. Any such degradation or failure could also have a negative effect on our reputation, which in turn could cause us to lose existing customers to our competitors or make it more difficult for us to attract new customers in the future. Further, any financial loss that we suffer as a result of such degradations or failures could be magnified by price movements of contracts involved in transactions impacted by the degradation or failure, and we may be unable to take corrective action to mitigate any losses we suffer.
We are subject to extensive government regulation. The securities and commodities futures industries are subject to extensive regulation under federal, state and foreign laws. In addition, the SEC, the CFTC, FINRA, the NFA, the CME and other self-regulatory organizations, commonly referred to as SROs, state securities commissions, and foreign securities regulators require strict compliance with their respective rules and regulations. These regulatory bodies are responsible for safeguarding the integrity of the financial markets and protecting the interests of participants in those markets.
As participants in various financial markets, we may be subject to regulation concerning certain aspects of our business, including:

- trade practices;
- the way we deal with and solicit clients;

- financial and reporting practices;
- client identification and anti-money laundering requirements;
- capital structure;
- record retention; and
- the conduct of our directors, officers and employees.

Failure to comply with any of these laws, rules or regulations could result in adverse consequences. We and certain of our officers and employees have, in the past, been subject to claims arising from acts in contravention of these laws, rules and regulations. These claims have resulted in the payment of fines and settlements. It is possible that we and our officers and other employees will, in the future, be subject to similar claims. An adverse ruling against us or our officers and other employees

could result in our or our officers and other employees being required to pay a substantial fine or settlement and could result in suspension or expulsion. This could have a material adverse effect on our business, financial condition and operating results.

The regulatory environment in which we operate is subject to change, particularly in light of the October 31, 2011 bankruptcy filing of MF Global and its notification to the CFTC of potential deficiencies in customer segregated futures accounts. New or revised legislation or regulations, including the Dodd-Frank Act and any potential increased regulation over customer segregated deposits, imposed by the SEC, the CFTC, other United States or foreign governmental regulatory authorities, SROs or FINRA could have a material adverse effect on our business, financial condition and operating results. Changes in the interpretation or enforcement of existing laws and rules by these governmental authorities, SROs and FINRA could also have a material adverse effect on our business, financial condition and operating results. Failure to comply with current or future legislation or regulations that apply to our operations could subject us to fines, penalties, or material restrictions on our business in the future.

Additional regulation, changes in existing laws and rules, or changes in interpretations or enforcement of existing laws and rules often directly affect securities firms. We cannot predict what effect any such changes might have. Our business, financial condition and operating results may be materially affected by both regulations that are directly applicable to us and regulations of general application. Our level of trading and market-making activities can be affected not only by such legislation or regulations of general applicability, but also by industry-specific legislation or regulations.

Due to the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act, we will incur significant additional operational and compliance costs, our revenues may be lower than in the past and our financial condition and results of operations may be adversely affected. The Dodd-Frank Act creates a comprehensive new regulatory regime governing the OTC and listed derivatives markets and their participants by requiring, among other things: centralized clearing of standardized derivatives (with certain stated exceptions); the trading of clearable derivatives on swap execution facilities or exchanges; and registration and comprehensive regulation of new categories of market participants as “swap dealers” and swap “introducing brokers.” The Dodd-Frank Act grants regulatory authorities such as the CFTC and the SEC broad rule-making authority to implement various provisions of the Dodd-Frank Act, including comprehensive regulation of the OTC derivatives market. It is unclear how these regulators will exercise these revised and expanded powers and whether they will undertake rule-making, supervisory or enforcement actions that would adversely affect us.

There will be significant costs to prepare for and comply with these on-going regulatory requirements. We will incur increased costs, including legal fees, personnel expenses and other costs associated with compliance with the Dodd-Frank Act. There will also be significant costs related to the development, operation and enhancement of our technology relating to trade execution, trade reporting, surveillance, record keeping and data reporting obligations, compliance and back-up and disaster recovery plans designed to meet the requirements of the regulators.

Changes that will likely be required in our OTC and clearing businesses may adversely impact our results of operations. Following the adoption of the Dodd-Frank Act and related rules the markets for cleared and non-cleared swaps may be less robust, there may be less volume and liquidity in these markets and there may be less demand for our services. Certain banks and other institutions will be limited in their conduct of proprietary trading and will be further limited or prohibited from trading in certain derivatives. The new rules, including the restrictions on the trading activities for certain banks and large institutions, could materially impact transaction volumes and liquidity in these markets and our revenues would be adversely impacted as a result.

Changes that will likely be required in our OTC and clearing businesses may also adversely impact our cash flows and financial condition. Registration will impose substantial new requirements upon these entities including, among other things, capital and margin requirements and business conduct standards. Increased regulatory oversight could also impose administrative burdens on us related to, among other things, responding to regulatory examinations or investigations. Based upon regulations proposed to date, we anticipate that one or more of our subsidiaries may be subject to registration under the Dodd-Frank Act. These initiatives and legislation may not only affect us but also certain of our customers and counterparties.

Additionally, the Dodd-Frank Act will require publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments, and authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials.

Although the original date set for completion of final rules was mid-July 2011, the CFTC has announced that it will phase in its new rules through June 30, 2012. Many provisions of the Dodd-Frank Act have not yet been implemented and will require interpretation and additional rule making by federal regulators. We are closely monitoring all relevant sections of the Dodd-Frank Act to ensure continued compliance with laws and regulations. While the ultimate effect of the Dodd-Frank Act on us cannot currently be determined, the law and its implementing rules and regulations are likely to result in increased compliance costs and fees paid to regulators, along with possible restrictions on our operations, all of which may have a material adverse effect on our operating results and financial condition.

We are subject to net capital requirements. The SEC, FINRA and various other regulatory agencies require our broker-dealer

subsidiaries, INTL Trading, Inc. and FCC Investments, Inc. to maintain specific levels of net capital. Failure to maintain the required net capital may subject these subsidiaries to suspension or revocation of registration by the SEC and suspension or expulsion by FINRA and other regulatory bodies.

The CFTC and various other self-regulatory organizations require our futures commission merchant subsidiary, FCStone, LLC, to maintain specific levels of net capital. Failure to maintain the required net capital may subject this subsidiary to limitations on its activities, including suspension or revocation of its registration by the CFTC and suspension or expulsion by the NFA and various exchanges of which it is a member.

Ultimately, any failure to meet capital requirements by our securities broker-dealer subsidiaries or our FCM subsidiary could result in liquidation of the subsidiary. Failure to comply with the net capital rules could have material and adverse consequences such as limiting their operations, or restricting the Company from withdrawing capital from these subsidiaries.

In addition, a change in the net capital rules, the imposition of new rules or any unusually large charge against net capital could limit our operations that require the intensive use of capital. They could also restrict our ability to withdraw capital from these subsidiaries. Any limitation on our ability to withdraw capital could limit our ability to pay cash dividends, repay debt and repurchase shares of our outstanding stock. A significant operating loss or any unusually large charge against net capital could adversely affect our ability to expand or even maintain our present levels of business, which could have a material adverse effect on our business, financial condition and operating results.

We are subject to margin funding requirements on short notice. Our business involves establishment and carrying of substantial open positions for customers on futures exchanges and in the OTC derivatives markets. We are required to post and maintain margin or credit support for these positions. Although we collect margin or other deposits from our customers for these positions, significant adverse price movements can occur which will require us to post margin or other deposits on short notice, whether or not we are able to collect additional margin or credit support from our customers. We maintain borrowing facilities for the purpose of funding margin and credit support and have systems to endeavor to collect margin and other deposits from customers on a same-day basis, there can be no assurance that these facilities and systems will be adequate to eliminate the risk of margin calls in the event of severe adverse price movements affecting open positions of our customers. Generally, if a customer is unable to meet its margin call, we promptly liquidate the customer's account. However, there can be no assurance that in each case the liquidation of the account will not result in a loss to us or that liquidation will be feasible, given market conditions, size of the account and tenor of the positions.

Low short-term interest rates negatively impact our profitability. The level of prevailing short-term interest rates affects our profitability because a portion of our revenue is derived from interest earned from the investment of funds deposited with us by our customers. As of September 30, 2011, we had $1.5 billion in customer segregated assets, which are generally invested in short-term treasury securities and money market funds. Our financial performance generally benefits from rising interest rates. Higher interest rates increase the amount of interest income earned from these customer deposits. If short-term interest rates remain low or continue to fall, our revenues derived from interest will decline which would negatively impact our profitability.

Short-term interest rates are highly sensitive to factors that are beyond our control, including general economic conditions and the policies of various governmental and regulatory authorities. In particular, decreases in the federal funds rate by the Board of Governors of the Federal Reserve System usually lead to decreasing interest rates in the U.S., which generally lead to a decrease in short-term interest rates.

We may issue additional equity securities. The issuance of additional common stock or securities convertible into our common stock could result in dilution of the ownership interest in us held by existing stockholders. We are authorized to issue, without stockholder approval, a significant number of additional shares of our common stock and securities convertible into either common stock or preferred stock.

We are subject to risks relating to litigation and potential securities laws liability. We face significant legal risks in our businesses, including risks related to currently pending litigation involving both the Company and FCStone. Many aspects of our business involve substantial risks of liability, including liability under federal and state securities and commodities laws, other federal, state and foreign laws and court decisions, as well as rules and regulations

promulgated by the SEC, the CFTC, FINRA and other regulatory bodies. Substantial legal liability or significant regulatory action against us and our subsidiaries could have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects. In addition, we face increased litigation risk as a result of the FCStone acquisition. Any such litigation could lead to more volatility of our stock price.

For a further discussion of litigation risks, see Item 3—Legal Proceedings below and Note 14 - Commitments and Contingencies in the Consolidated Financial Statements.

We may be subject to potentially large claims for violations of environmental laws. Our base metals trading business may be subject to potential claims under certain federal, state and foreign environmental laws. This business involves the purchase and sale of base metals such as lead and other potentially hazardous materials. As part of this business, we engage third parties

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located both in the United States and in other countries to acquire, store, transport and recycle used automotive and industrial batteries on our behalf. In the event that these third parties fail to comply with federal, state or foreign environmental laws in handling or disposing of these batteries and other hazardous substances used in or arising from the recycling of these batteries, we may be exposed to claims for the cost of remediating sites impacted by such improper handling and disposal, as well as other related costs. We seek to mitigate this risk by dealing with third parties who we believe are in compliance with applicable laws and who have established reputations in the industry.
We are subject to intense competition. We derive a significant portion of our revenues from market-making and trading activities involving securities and commodities. The market for these services, particularly market-making services through electronic communications gateways, is rapidly evolving and intensely competitive. We expect competition to continue and intensify in the future. We compete primarily with wholesale, national, and regional broker-dealers and FCMs, as well as electronic communications networks. We compete primarily on the basis of our expertise and quality of service.
We also derive a significant portion of our revenues from commodities risk management services. The commodity risk management industry is very competitive and we expect competition to continue to intensify in the future. Our primary competitors in this industry include both large, diversified financial institutions and commodity-oriented businesses, smaller firms that focus on specific products or regional markets and independent FCMs.
A number of our competitors have significantly greater financial, technical, marketing and other resources than we have. Some of them may:

- offer alternative forms of financial intermediation as a result of superior technology and greater availability of information;
- offer a wider range of services and products than we offer;
- be larger and better capitalized;
- have greater name recognition; and
- have more extensive customer bases.

These competitors may be able to respond more quickly to new or evolving opportunities and customer requirements. They may also be able to undertake more extensive promotional activities and offer more attractive terms to customers. Recent advances in computing and communications technology are substantially changing the means by which market-making services are delivered, including more direct access on-line to a wide variety of services and information. This has created demand for more sophisticated levels of customer service. Providing these services may entail considerable cost without an offsetting increase in revenues. In addition, current and potential competitors have established or may establish cooperative relationships or may consolidate to enhance their services and products. New competitors or alliances among competitors may emerge and they may acquire significant market share.
We cannot assure you that we will be able to compete effectively with current or future competitors or that the competitive pressures we face will not have a material adverse effect on our business, financial condition and operating results.
Our business could be adversely affected if we are unable to retain our existing customers or attract new customers. The success of our business depends, in part, on our ability to maintain and increase our customer base. Customers in our market are sensitive to, among other things, the costs of using our services, the quality of the services we offer, the speed and reliability of order execution and the breadth of our service offerings and the products and markets to which we offer access. We may not be able to continue to offer the pricing, service, speed and reliability of order execution or the service, product and market breadth that customers desire. In addition, once our risk management consulting customers have become better educated with regard to sources of risk and the tools available to facilitate the management of this risk and we have provided them with recommended hedging strategies, they may no longer continue paying monthly fees for these services. In addition, the bankruptcy filing of MF Global and its disclosure of a potential deficiency in customer segregated futures accounts may negatively affect the perception of our industry and our ability to retain existing customers or attract new customers. Furthermore, our existing customers, including IRMP customers, are not generally obligated to use our services and can switch providers of clearing and execution services or decrease their trading activity conducted through us at any time. As a result, we may fail to retain existing customers or be unable to attract new customers. Our failure to maintain or attract customers could have a material

adverse effect on our business, financial condition and operating results.

We rely on relationships with introducing brokers for obtaining some of our customers. The failure to maintain these relationships could adversely affect our business. We have relationships with introducing brokers who assist us in establishing new customer relationships and provide marketing and customer service functions for some of our customers. These introducing brokers receive compensation for introducing customers to us. Many of our relationships with introducing brokers are non-exclusive or may be canceled on relatively short notice. In addition, our introducing brokers have no obligation to provide new customer relationships or minimum levels of transaction volume. Our failure to maintain these relationships with these introducing brokers or the failure of these introducing brokers to establish and maintain customer relationships would result in a loss of revenues, which could adversely affect our business.

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Certain provisions of Delaware law and our charter may adversely affect the rights of holders of our common stock and make a takeover of us more difficult. We are organized under the laws of the State of Delaware. Certain provisions of Delaware law may have the effect of delaying or preventing a change in control. In addition, certain provisions of our certificate of incorporation may have anti-takeover effects and may delay, defer or prevent a takeover attempt that a stockholder might consider in its best interest. Our certificate provides for a staggered board, so that it would take three successive annual meetings to replace the entire board of directors. Our certificate of incorporation authorizes the board to determine the terms of our unissued series of preferred stock and to fix the number of shares of any series of preferred stock without any vote or action by our stockholders. As a result, the board can authorize and issue shares of preferred stock with voting or conversion rights that could adversely affect the voting or other rights of holders of our common stock. In addition, the issuance of preferred stock may have the effect of delaying or preventing a change of control, because the rights given to the holders of a series of preferred stock may prohibit a merger, reorganization, sale, liquidation or other extraordinary corporate transaction.

Our stock price is subject to volatility. The market price of our common stock has been and can be expected to be subject to fluctuation as a result of a variety of factors, many of which are beyond our control, including:

- actual or anticipated variations in our results of operations;
- announcements of new products by us or our competitors;
- technological innovations by us or our competitors;
- changes in earnings estimates or buy/sell recommendations by financial analysts;
- the operating and stock price performance of other companies;
- general market conditions or conditions specific in specific markets;
- conditions or trends affecting our industry or the economy generally;
- announcements relating to strategic relationships or acquisitions; and
- risk factors and uncertainties set forth elsewhere in this Form 10-K.

Because of this volatility, we may fail to meet the expectations of our stockholders or of securities analysts, and the trading prices of our common stock could decline as a result. In addition, any negative change in the public's perception of the securities industry could depress our stock price regardless of our operating results.

Future sales by existing stockholders could depress the market price of our common stock. If our stockholders sell substantial amounts of our common stock in the public market, the market price of our common stock could fall. Such sales also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate.

Our international operations involve special challenges that we may not be able to meet, which could adversely affect our financial results. We engage in a significant amount of business with customers in the international markets. Certain additional risks are inherent in doing business in international markets, particularly in a regulated industry. These risks include:

- the inability to manage and coordinate the various regulatory requirements of multiple jurisdictions that are constantly evolving and subject to unexpected change;
- tariffs and other trade barriers;
- difficulties in recruiting and retaining personnel, and managing international operations;
- difficulties of debt collection in foreign jurisdictions;
- potentially adverse tax consequences; and
- reduced protection for intellectual property rights.

Our operations are subject to the political, legal and economic risks associated with politically unstable and less developed regions of the world, including the risk of war and other international conflicts and actions by governmental authorities, insurgent groups, terrorists and others. Specifically, we conduct business in countries whose currencies may be unstable. Future instability in such currencies or the imposition of governmental or regulatory restrictions on such currencies could impede our foreign exchange business and our ability to collect on collateral held in such currencies.

Our operations are required to comply with the laws and regulations of foreign governmental and regulatory authorities of each country in which we conduct business. These may include laws, rules and regulations, including

registration requirements. Our compliance with these laws and regulations may be difficult and time consuming and may require significant expenditures and personnel requirements, and our failure to be in compliance would subject us to legal and regulatory liabilities. We have customers in numerous countries around the world in which we are not registered. As a result, we may become subject to the regulatory requirements of those countries. We may also experience difficulty in managing our international operations because of, among other things, competitive conditions overseas, established domestic markets, language and cultural differences and economic or political instability. Any of these factors could have a material adverse effect on the success of our international operations or limit our ability to grow our international operations and, consequently, on our business, financial condition and operating results.
If we are unable to manage any of these risks effectively, our business could be adversely affected.
Item 2. Unresolved Staff Comments

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We have received no written comments regarding our periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of our fiscal year 2011 that remain unresolved.

Item 2. Properties

The Company maintains offices in New York, New York; Winter Park, Florida; West Des Moines, Iowa; Chicago, Illinois; Kansas City, Missouri; St. Louis, Missouri; Omaha, Nebraska; Minneapolis, Minnesota; Bloomington, Illinois; Miami, Florida; New Smyrna Beach, Florida; Indianapolis, Indiana; Spirit Lake, Iowa; Bowling Green, Ohio; Nashville, Tennessee; Castle Rock, Colorado; Topeka, Kansas; Winnipeg, Canada; Buenos Aires, Argentina; Campinas, Brazil; Sao Paulo, Brazil; Maringa, Brazil; Porto Alegre, Brazil; Asuncion, Paraguay; Montevideo, Uruguay; London, United Kingdom; Dublin, Ireland; Dubai, United Arab Emirates; Singapore, Singapore; Beijing and Shanghai, China; and Sydney, Australia.

All of our offices and other principal business properties are leased, except for the space in Buenos Aires, which we own. We believe that our leased and owned facilities are adequate to meet anticipated requirements for our current lines of business.

Item 3. Legal Proceedings

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. We assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, our legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss had been incurred at the date of the financial statements and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. Neither accrual nor disclosure is required for loss contingencies that are deemed remote. We accrue legal fees related to contingent liabilities as they are incurred.

In addition to the matters discussed below, from time to time and in the ordinary course of business, we are involved in various legal actions and proceedings, including tort claims, contractual disputes, employment matters, workers' compensation claims and collections. We carry insurance that provides protection against certain types of claims, up to the policy limits of our insurance. During the year ended September 30, 2011, loss contingency accruals, not having a material impact on the consolidated financial statements, have been recorded. In the opinion of management, possible exposure in these matters in excess of the amounts accrued, is not material to the Company's earnings, financial position, or liquidity.

The following is a summary of significant legal matters involving the Company.

Securities Litigation

FCStone and certain officers of FCStone were named as defendants in an action filed in the United States District Court for the Western District of Missouri on July 15, 2008. A consolidated amended complaint ("CAC") was subsequently filed on September 25, 2009. As alleged in the CAC, the action purports to be brought as a class action on behalf of purchasers of FCStone common stock between November 15, 2007 and February 24, 2009. The CAC seeks to hold defendants liable under Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934 and concerns disclosures included in FCStone's fiscal year 2008 public filings. Specifically, the CAC relates to FCStone's public disclosures regarding an interest rate hedge, a bad debt expense arising from unprecedented events in the cotton trading market, and certain disclosures beginning on November 3, 2008 related to losses it expected to incur arising primarily from a customer energy trading account. FCStone and the named officers moved to dismiss the action. Although the Court denied that motion on November 16, 2010, it limited the action to the public disclosures made on November 3, 2008 and November 4, 2008 related to the energy trading account. As a result of the Court's order and lead plaintiffs' decision not to amend their complaint, the lead plaintiffs lost standing to prosecute the action because they were not shareholders at the relevant time. Counsel for lead plaintiffs have since added named plaintiffs who

purport to possess standing. Motion practice with respect to class certification is currently pending before the Court pursuant to which plaintiffs seek to certify a class on behalf of purchasers of FCStone stock between April 14, 2008 and February 24, 2009. The Company and the FCStone defendants continue to believe the action is meritless, and intend to defend the action vigorously.

In August, 2008, a shareholder derivative action was filed against FCStone and certain directors of FCStone in the Circuit Court of Platte County, Missouri, alleging breaches of fiduciary duties, waste of corporate assets and unjust enrichment. An amended complaint was subsequently filed in May, 2009 to add claims based upon the losses sustained by FCStone arising out

of a customer's energy trading account. On July 7, 2009, the same plaintiff filed a motion for leave to amend the existing case to add a purported class action claim on behalf of the holders of FCStone common stock.

On July 8, 2009, a purported shareholder class action complaint was filed against FCStone and its directors, as well as the Company in the Circuit Court of Clay County, Missouri. The complaint alleged that FCStone and its directors breached their fiduciary duties by failing to maximize stockholder value in connection with the contemplated acquisition of FCStone by the Company. This complaint was subsequently consolidated with the complaint filed in the Circuit Court of Platte County, Missouri. The plaintiffs subsequently filed an amended consolidated complaint which does not assert any claims against the Company. This complaint purports to be filed derivatively on FCStone and the Company's behalf and against certain of FCStone's current and former directors and officers and directly against the same individuals. The Company, FCStone, and the defendants filed motions to dismiss on multiple grounds. That motion is fully briefed and pending decision.

The staff of the Fort Worth Regional Office of the SEC is conducting a formal investigation of FCStone's disclosures and accounting for losses associated with the energy trading account, which occurred prior to the Company's acquisition of FCStone on September 30, 2009. During the quarters ended March 31, 2011 and June 30, 2011, certain employees of the Company testified before the SEC in connection with this investigation. The Company is cooperating fully with the SEC staff in its investigation, but cannot predict the scope, duration or outcome of the matter, including monetary penalties or fines, if any.

The Company has also received a request from the CFTC for certain information relating to the energy trading account matter. The Company is cooperating fully with the staff of the CFTC, and cannot predict the scope, duration or outcome of the CFTC's review, including monetary penalties or fines, if any.

On February 24, 2011, the Company's Board of Directors formed a special committee to conduct an independent investigation of FCStone's disclosures and accounting for losses associated with the energy trading account. The Company's Board of Directors determined that it would be appropriate and consistent with its governance and oversight responsibilities to form the special committee to investigate these matters as they pertain to the private litigation and the SEC investigation described above. The special committee, which is comprised solely of independent directors of the Company who were not formerly directors of FCStone, retained an independent law firm to represent and assist it in its investigation.

Convertible Note Holder Litigation

In November, 2009, an investor holding $3.7 million in principal amount of the Company’s senior subordinated convertible notes due 2011 (the “Notes”), Portside Growth and Opportunity Fund (“Portside”), managed by Ramius LLC, served a notice of motion for summary judgment on the Company, claiming that the FCStone transaction resulted in a change of control as defined in the Notes; and that, as a result, the Company should have afforded Portside the opportunity to have the Notes redeemed at a 15% premium. Portside also claimed default interest at the rate of 15% per annum established in the Notes. Portside’s motion was denied in March, 2010. Portside filed an amended complaint in April, 2010. The remaining three holders of the Notes, Highbridge International LLC ("Highbridge"), LBI Group Inc. and Iroquois Master Fund Ltd. ("Iroquois"), holding Notes in an aggregate amount of $13.0 million, filed a similar lawsuit on the Company on October 20, 2010.

On December 14, 2010, Portside delivered a Conversion Notice to the Company in compliance with the terms of the relevant agreement. The full remaining principal amount and accrued interest converted into 173,966 shares of common stock of the Company. Portside filed a notice of discontinuance thereafter.

On April 21, 2011, the Company's motion to dismiss the investors' lawsuit was denied. Prior to April 21, 2011, one of the investors, Iroquois, converted $3.0 million of its $4.0 million investment in principal amount of the Notes, and accrued interest, into 139,136 shares of common stock of the Company. On April 25, 2011, Iroquois converted the remaining $1.0 million of its original $4.0 million investment in the Notes into 46,133 shares of common stock of the Company.

During July, 2011, LBI Group Inc. sold its entire $5.0 million investment in principal amount of the Notes to Leucadia National Corporation (the holder of approximately 8% of the outstanding common stock of the Company), filed a stipulation of discontinuance in the aforementioned lawsuit and released the Company from any further claims in connection with its prior investment in the Notes.

During September, 2011, Highbridge and Leucadia National Corporation converted the remaining $9.0 million of the Notes, and accrued interest, into 419,468 shares of common stock of the Company.

Highbridge and Iroquois, each a holder of $4.0 million in principal amount of the Notes as of September 30, 2009, persist in their claim against the Company. The Company intends to defend the claim vigorously. The matter is expected to go to trial during the summer of 2012.

Sentinel Litigation

In August 2008, the bankruptcy trustee of Sentinel Management Group, Inc. ("Sentinel") filed adversary proceedings against one

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of the Company's subsidiaries, FCStone, LLC, and a number of other FCMs in the Bankruptcy Court, subsequently reassigned within the United States District Court, for the Northern District of Illinois seeking avoidance of alleged transfers or withdrawals of funds received by the Company and other FCMs within 90 days prior to the filing of the Sentinel bankruptcy petition, as well as avoidance of post-petition distributions and disallowance of the proof of claim filed by FCStone, LLC. The trustee seeks recovery of pre- and post-petition transfers totaling approximately $15.5 million and, in April 2009, filed an amended complaint adding a claim for unjust enrichment. FCStone, LLC answered the complaints and all parties entered into the discovery phase of the litigation. On January 21, 2011 the bankruptcy trustee of Sentinel filed a motion for summary judgment against FCStone, LLC on various counts in the adversary proceedings filed in August 2008 against FCStone, LLC and a number of other FCMs. The motion has since been fully briefed, and is pending before the court awaiting decision. FCStone, LLC intends to defend the matter vigorously, and to coordinate its defense with the other FCMs.

Item 4. [Removed and Reserved]

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company’s common stock is listed on The NASDAQ Stock Market LLC (“NASDAQ”) under the symbol ‘INTL’. The Company’s stock trades on the NASDAQ Global Market. As of September 30, 2011, there were approximately 250 registered holders of record of the Company’s common stock. The high and low sales prices per share of the Company’s common stock for each full quarterly period during fiscal 2011 and 2010 were as follows:

		Price Range	
		High	Low
2011:			
	Fourth Quarter	$25.48	$20.02
	Third Quarter	$27.25	$22.92
	Second Quarter	$26.36	$23.12
	First Quarter	$24.77	$17.84
2010:			
	Fourth Quarter	$18.91	$15.54
	Third Quarter	$16.96	$14.90
	Second Quarter	$17.25	$14.20
	First Quarter	$19.97	$14.03

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The Company has never declared any cash dividends on its common stock, and does not currently have any plans to pay dividends on its common stock. The payment of cash dividends in the future is subject to the discretion of the Board of Directors and will depend on the Company's earnings, financial condition, capital requirements, contractual restrictions and other relevant factors. The Company's credit agreements currently prohibit the payment of cash dividends by the Company.

On August 12, 2011, the Company's Board of Directors authorized the repurchase of up to one million shares of the Company's outstanding common stock from time to time in open market purchases and private transactions as permitted by securities laws. The Company's common stock repurchase program activity for the three months ended September 30, 2011 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares Remaining to be Purchased Under the Program (in thousands)
July 1, 2011 to July 31, 2011	—	$—	—	—
August 1, 2011 to August 31, 2011	—	—	—	1,000.0
September 1, 2011 to September 30, 2011	300	20.03	300	999.7
Total	300	$20.03	300	

Information relating to compensation plans under which our equity securities are authorized for issuance is set forth in Part III, Item 12 of our Annual Report on Form 10-K.

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Item 6. Selected Financial Data

The following selected financial and operating data are derived from our consolidated financial statements and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7 and our Consolidated Financial Statements included in Item 8. The consolidated income statement data for 2010 and 2011 reflects the results of FCStone, which was acquired on September 30, 2009. The consolidated income statement data for 2007 through 2009 does not include the historical results of FCStone. The selected consolidated balance sheet information as of September 30, 2011, 2010 and 2009 reflect the financial condition of INTL after the FCStone transaction. The selected consolidated balance sheet information as of September 30, 2008 and 2007 does not include the financial condition of FCStone.

Selected Summary Financial Information (U.S. GAAP)

	Year Ended September 30,				
(in millions, except share and per share amounts)	2011	2010	2009	2008	2007
Operating revenues	$423.2	$269.0	$90.6	$114.9	$45.7
Interest expense	11.3	9.9	8.0	11.2	9.3
Non-interest expenses:					
Compensation and benefits	176.6	104.2	40.2	35.6	28.5
Clearing and related expenses	77.4	68.2	16.0	13.1	11.2
Introducing broker commissions	24.0	18.9	—	—	—
Other	74.4	49.9	13.1	12.7	6.9
Income (loss) from continuing operations, before tax	59.5	17.9	13.3	42.3	(10.2)
Income tax expense (benefit)	22.5	6.4	2.6	16.2	(3.4)
Income (loss) from discontinued operations, net of tax	0.2	0.6	(1.1)	1.0	1.7
Income (loss) before extraordinary (loss) income	37.2	12.1	9.6	27.1	(5.1)
Extraordinary (loss) income	—	(7.0)	18.5	—	—
Net income (loss)	37.2	5.1	28.1	27.1	(5.1)
Add: Net loss (income) attributable to noncontrolling interests	0.1	0.3	(0.5)	0.7	0.6
Net income (loss) attributable to INTL FCStone Inc. common stockholders	$37.3	$5.4	$27.6	$	